

Survey of Primary Dealers

Markets Group, Federal Reserve Bank of New York

April 2013

Policy Expectations Survey

Please respond by **Monday, April 22 at 5pm** to the questions below. Your time and input are greatly appreciated.

This survey is formulated by the Trading Desk at the Federal Reserve Bank of New York to enhance policymakers' understanding of market expectations on a variety of topics related to the economy, monetary policy and financial markets. The questions involve only topics that are widely discussed in the public domain and never presume any particular policy action. FOMC members are not involved in the survey's design.

Dealer:

Monetary Policy Expectations

1) Do you expect any changes in the FOMC statement and, if so, what changes?

2) Of the possible outcomes below, please indicate the percent chance* you attach to the timing of the first federal funds target rate increase.

Timing of First Increase:									
2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	≥2017 H2

* Percentages should add up to 100 percent.

Estimate for most likely quarter and year of first target rate increase: dropdown

3) a) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the federal funds target rate or range at the end of each half-year period and over the longer run:

2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2	2016 H1	2016 H2	2017 H1	2017 H2
dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown	dropdown

Longer run:

b) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the 10-year Treasury yield at the end of each half-year period:

2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2

c) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the 30-year fixed primary mortgage rate at the end of each half-year period. For reference, the current 30-year fixed primary rate according to the Freddie Mac survey is 3.41 percent.

2013 H1	2013 H2	2014 H1	2014 H2	2015 H1	2015 H2

4) Of the possible outcomes below, please indicate the percent chance* you attach to the federal funds target rate or range at the end of 2013, 2014, and 2015.

	0.00% - 0.25%	0.26 - 0.50%	0.51 - 1.00%	1.01 - 1.50%	1.51 - 2.00%	2.01 - 2.5%	≥2.51%
Year-end 2013:							
Year-end 2014:							
Year-end 2015:							

* Percentages should add up to 100 percent.

5) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 3/11/13? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

Rating: dropdown

Please Explain:

6) In the March FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of \$40 billion per month and longer-term Treasury securities at a pace of \$45 billion per month, and also stated that it would take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives in determining the size, pace, and composition of its asset purchases.

a) Please provide your expectation for the monthly pace of purchases that will be in effect after each of the below FOMC meetings.

	Monthly Pace of Longer-Term Security Purchases (\$ billions)	
	Treasuries	Agency MBS
April/May 30-1:		
June 18-19:		
July 30-31:		
December 17-18:		
April 29-30, 2014:		

b) Please indicate the quarter and year during which you expect asset purchases in Treasury and agency MBS securities to be completed.

Expected End of Treasury Purchases Quarter and Year dropdown	Expected End of Agency MBS Purchases Quarter and Year dropdown
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Please explain, including your views on any difference in the end dates of Treasury and agency MBS purchases, if applicable:

c) Assuming that the economy progresses according to the scenario you judge most likely, and your expectations for the timing of the end of asset purchases in Part B are realized, please address the following:

At that future point, what is your best estimate for the realized values of the following economic indicators? If you project Treasury and agency MBS purchases to end at different times, please provide estimates as of the later of the two dates. For reference, as of 3/31/13 the level of total U.S. employees on nonfarm payrolls, seasonally adjusted, was 135.2 million.

Total U.S. employees on nonfarm payrolls (in millions):	<div style="border: 1px solid black; height: 15px;"></div>
Level of the unemployment rate:	<div style="border: 1px solid black; height: 15px;"></div>
Annual rate of change in PCE deflator:	<div style="border: 1px solid black; height: 15px;"></div>

At that future point, what is your best estimate for your projection of the path for the following economic indicators (please ensure your signs are correct)? If Treasury and agency MBS purchases end at different times, please project from the later of the two.

Average monthly change in non-farm payrolls over the following 12-month period:	<div style="border: 1px solid black; height: 15px;"></div>
Percentage point change in the unemployment rate over the following 12-month period:	<div style="border: 1px solid black; height: 15px;"></div>
Annual rate of change in PCE deflator 1 year ahead:	<div style="border: 1px solid black; height: 15px;"></div>

7) a) In the prepared remarks of his March 20th post-FOMC press conference, Chairman Bernanke stated that with regard to the FOMC's asset purchase program, "The Committee could vary the pace of purchases as progress is made toward its economic objectives or if its assessment of the efficacy and costs of the program changes." Given the factors cited in the Chairman's prepared remarks, please rate them according to your view of their importance in influencing a change in the pace of purchases prior to the conclusion of the program. If you expect multiple changes in pace, please rate the importance of factors in reference to the first change only. If you do not expect a change in pace before the conclusion of the program, please choose "No Pace Change". (5 = very important, 1 = not important)

	Factors Influencing Change in Pace of Securities Purchases:	
	Treasuries	Agency MBS
Progress toward economic objectives:	dropdown	dropdown
Efficacy:	dropdown	dropdown
Costs:	dropdown	dropdown

b) Please comment further on the factor you thought was most important in influencing a change in the pace of Treasury and/or agency MBS securities purchases from Part A. In the event that you rated two or more choices equally for either Treasuries or agency MBS, please elaborate on what you view as the one most likely factor to influence a change in the pace of purchases for each security:

If you believe **progress toward economic objectives** will be the most important factor, please explain what specific economic conditions would warrant a change in the pace of Treasury and/or agency MBS securities purchases. To the extent possible, please include specific indicators and levels that you would consider important.

If you believe **efficacy of purchases** will be the most important factor, please explain what specific economic conditions would warrant a change in the pace of Treasury and/or agency MBS securities purchases. To the extent possible, please include specific indicators and levels that you would consider important.

If you believe **costs of purchases** will be the most important factor, please explain what specific economic conditions would warrant a change in the pace of Treasury and/or agency MBS securities purchases. To the extent possible, please include specific indicators and levels that you would consider important.

8) Please provide your expectation for the change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, please include settled and unsettled amounts.

	Quarters*		Half-Years				Full Years		
	2013 Q3	2013 Q4	2014 H1	2014 H2	2015 H1	2015 H2	2016 - Full Year	2017 - Full Year	2018 - Full Year
Expected change in amount of U.S. Treasury securities in SOMA (\$ billions)									
Expected change in amount of agency debt and agency MBS securities in SOMA (\$ billions)									

*Note, expectations begin with Q3 2013, as Q1 and Q2 are obtained from question 6.

Please explain any assumptions underlying changes in the pace and/or composition of asset purchases:

Please explain any assumptions underlying any declines in SOMA portfolio levels:

9) The March FOMC meeting minutes stated that, "Another exit-related concern was a possible adverse effect on market functioning from MBS sales during the normalization of the Federal Reserve's balance sheet."

a) Please indicate the percent chance you assign to outright sales of agency MBS securities from the SOMA portfolio, at any time, in the context of balance sheet normalization.

b) If you see any possibility of sales of agency MBS securities taking place in the context of balance sheet normalization, please provide your most likely estimate of the quarter and year during which sales would begin.

Please Explain:

10) Of the possible outcomes below, please indicate the percent chance* you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013 and year-end 2014. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 3 H.4.1 was \$2,785 billion (the H.4.1 closest to the start of 2013).

	Level of SOMA Portfolio (\$ billions)					
	<3000	3000-3250	3250-3500	3500-3750	3750-4000	4000-4250 >4250
year-end 2013:						
year-end 2014:	<2500	2500-3000	3000-3500	3500-4000	4000-4500	4500-5000 >5000

* Percentages should add up to 100 percent.

Economic Indicator Forecasts

11) Provide your firm's estimate of the most likely outcome (i.e., the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

	GDP (Q4/Q4 Growth)		Core PCE Deflator (Q4/Q4 Growth)		Headline PCE Deflator (Q4/Q4 Growth)		Unemployment Rate (Q4 Average Level)	
	Estimate	Balance of Risk	Estimate	Balance of Risk	Estimate	Balance of Risk	Estimate	Balance of Risk
2013:		dropdown		dropdown		dropdown		dropdown
2014:		dropdown		dropdown		dropdown		dropdown
2015:		dropdown		dropdown		dropdown		dropdown
Longer run:								

Please comment on any risks you see to your forecast:

12) For the outcomes below, please indicate the percent chance* you attach to the annual average CPI inflation rate from 2018 - 2023. Please also indicate your point estimate for the most likely outcome (i.e., the mode).

	≤1.0%	1.01-1.5%	1.51-2.0%	2.01-2.5%	2.51-3.0%	≥3.01%	Point estimate for most likely outcome:
							<input type="text"/>

* Percentages should add up to 100 percent.

13) a) What percent chance do you attach to the US economy currently being in a recession*?

* NBER-defined recession.

Recession currently:

b) What percent chance would you attach to the US economy being in a recession* in 6 months?

* NBER-defined recession.

Recession in 6 months:

14) The 10-year Treasury yield has declined by approximately 25 basis points since the release of the March FOMC statement. Please rate the importance of the factors below in explaining this decline. (5 = very important, 1 = not important)

<input type="text" value="dropdown"/>	<input type="text" value="dropdown"/>	<input type="text" value="dropdown"/>	<input type="text" value="dropdown"/>	<input type="text" value="dropdown"/>	<input type="text" value="dropdown"/>	<input type="text"/>
Weaker growth prospects	Lower inflation outlook	Safe haven investor flows	Effects related to global portfolio rebalancing	Change in expectations for Federal Reserve asset purchases	Other	(if "Other", please specify)

Please Explain:

15) Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

Dropdown Selections

- 2) Estimate for most likely quarter and year of first target rate increase:
- Q2 2013
 - Q3 2013
 - Q4 2013
 - Q1 2014
 - Q2 2014
 - Q3 2014
 - Q4 2014
 - Q1 2015
 - Q2 2015
 - Q3 2015
 - Q4 2015
 - Q1 2016
 - Q2 2016
 - Q3 2016
 - Q4 2016
 - Q1 2017
 - Q2 2017
 - Q3 2017
 - Q4 2017
 - >= Q1 2018

- 3) a) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the federal funds target rate or range at the end of each half-year period and over the longer run:

- Federal Funds Target Rate or Range:
- 0 - .25%
 - 0.25%
 - 0.50%
 - 0.75%
 - 1.00%
 - 1.25%
 - 1.50%
 - 1.75%
 - 2.00%
 - 2.25%
 - 2.50%
 - 2.75%
 - 3.00%
 - 3.25%
 - 3.50%
 - 3.75%
 - 4.00%
 - 4.25%
 - 4.50%
 - 4.75%
 - 5.00%
 - 5.25%
 - 5.50%
 - 5.75%
 - 6.00%
 - > 6.00%

- 5) How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 3/11/13? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.

- Rating:
- 5 -- Very Effective
 - 4
 - 3
 - 2
 - 1 -- Very Ineffective

- 6) b) Please indicate the quarter and year during which you expect asset purchases in Treasury and agency MBS securities to be completed.

- Expected End of Treasury and Agency MBS Purchases:
- Q2 2013
 - Q3 2013
 - Q4 2013
 - Q1 2014
 - Q2 2014
 - Q3 2014
 - Q4 2014
 - Q1 2015
 - Q2 2015
 - Q3 2015
 - Q4 2015
 - Q1 2016
 - Q2 2016
 - Q3 2016
 - Q4 2016
 - Q1 2017
 - Q2 2017
 - Q3 2017
 - Q4 2017
 - >= Q1 2018

- 7) a) In the prepared remarks of his March 20th post-FOMC press conference, Chairman Bernanke stated that with regard to the FOMC's asset purchase program, "The Committee could vary the pace of purchases as progress is made toward its economic objectives or if its assessment of the efficacy and costs of the program changes." Given the factors cited in the Chairman's prepared remarks, please rate them according to your view of their importance in influencing a change in the pace of purchases prior to the conclusion of the program. If you expect multiple changes in pace, please rate the importance of factors in reference to the first change only. If you do not expect a change in pace before the conclusion of the program, please choose "No Pace Change". (5 = very important, 1 = not important)

- Influencing Factors:
- 5 -- Very Important
 - 4
 - 3
 - 2
 - 1 -- Not Important
 - No Pace Change

- 9) b) If you see any possibility of sales of agency MBS securities taking place in the context of balance sheet normalization, please provide your most likely estimate of the quarter and year during which sales would begin.

- Expected First Sales:
- Q3 2013
 - Q4 2013
 - Q1 2014
 - Q2 2014
 - Q3 2014
 - Q4 2014
 - Q1 2015
 - Q2 2015
 - Q3 2015
 - Q4 2015
 - Q1 2016
 - Q2 2016
 - Q3 2016
 - Q4 2016
 - Q1 2017
 - Q2 2017
 - Q3 2017
 - Q4 2017
 - Q1 2018
 - Q2 2018
 - Q3 2018
 - Q4 2018
 - >= Q1 2019

11) Provide your firm's estimate of the most likely outcome (i.e., the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast?

Balance of Risk:	Lower GDP Balanced Higher GDP	Balance of Risk:	Lower Inflation Balanced Higher Inflation	Balance of Risk:	Lower Inflation Balanced Higher Inflation	Balance of Risk:	Higher UR Balanced Lower UR
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14) The 10-year Treasury yield has declined by approximately 25 basis points since the release of the March FOMC statement. Please rate the importance of the factors below in explaining this decline. (5 = very important, 1 = not important)

Factor Importance:

- 5 -- Very Important
- 4
- 3
- 2
- 1 -- Not Important